



# Congressional Budget Office

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## **Transportation Finance Proposals in the 113<sup>th</sup> Congress and Their Budgetary Implications**

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# Overview

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- Example proposal for financing transportation
- Strengths and weakness of a potential infrastructure bank
  - Number of suitable projects is likely to be small in the short term
  - Federal subsidy may reflect benefits to the general public
  - Could centralize decision making for project selection
- Federal budget basics
  - Federal-like activities are recorded in the budget
  - Loan and loan guarantee programs treated on a net-present-value basis
  - Borrowing funds does not constitute a receipt to the federal government
- The Congressional Budget Office (CBO) has published a number of studies and reports that address the budget and policy implications of transportation finance mechanisms.

# Infrastructure Banks: Example Proposal

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- Different ideas for transportation financing have been proposed over the past several years.
- Example proposal for an infrastructure bank:
  - It is federally funded and controlled
  - It selects new, locally proposed construction projects for funding based on several criteria, including the project's costs and benefits
  - It provides financing through loans and loan guarantees
  - Projects would have to involve tolls, taxes, or other dedicated revenue streams to repay the loans.

# Infrastructure Banks: Volume of Suitable Projects

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- ***Number of New Large-Scale Projects:*** Likely to be small in the short-term
- ***Ability of Projects to Repay Loans:*** Large projects do not necessarily involve toll collections or availability payments (payments by the state or local government to the owner/operator of the facility)
- ***Availability of Other Funding:*** An infrastructure bank might fund projects that can receive funding from other sources

# Infrastructure Banks: Project Financing

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- Could provide a federal subsidy commensurate with the benefits of a project that accrue to the general public rather than the individual end users
- Could align payment of the costs with the ultimate beneficiaries

# Infrastructure Banks: Project Selection

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- Potential to centralize federal decision-making about which projects receive federal funds
- Potential to overcome certain barriers to the financing of multijurisdictional or multimodal projects

# Federal Budget Basics: What Activities are Recorded as Part of the Budget?

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**“Borderline agencies and transactions should be included in the budget unless there are exceptionally persuasive reasons for exclusion.”**

—President’s Commission on Budget Concepts (1976)

# Federal Budget Basics: What Activities are Recorded as Part of the Budget?

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- Any entity that is financed by federal funds and subject to federal control is recorded as part of the budgetary activities of the federal government.
- Activities do not have to be conducted by a federal agency to be classified as governmental and included in the budget.



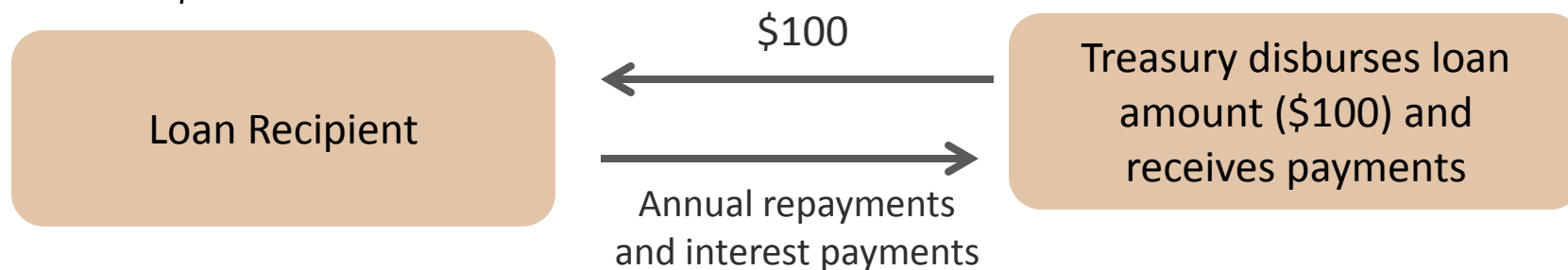
# Federal Budget Basics: Under the Federal Credit Reform Act of 1990 (FCRA)

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- The cost of loans and loan guarantees is recorded as the net present value of the cash flows to and from the government when the loan is disbursed (accrual accounting).
  - This value is the subsidy cost.
  - For example: A loan with a subsidy rate of 10% would provide \$100 million for projects, but would be recorded in the budget as costing \$10 million.

# Federal Budget Basics: A Simplified Credit Reform Scheme

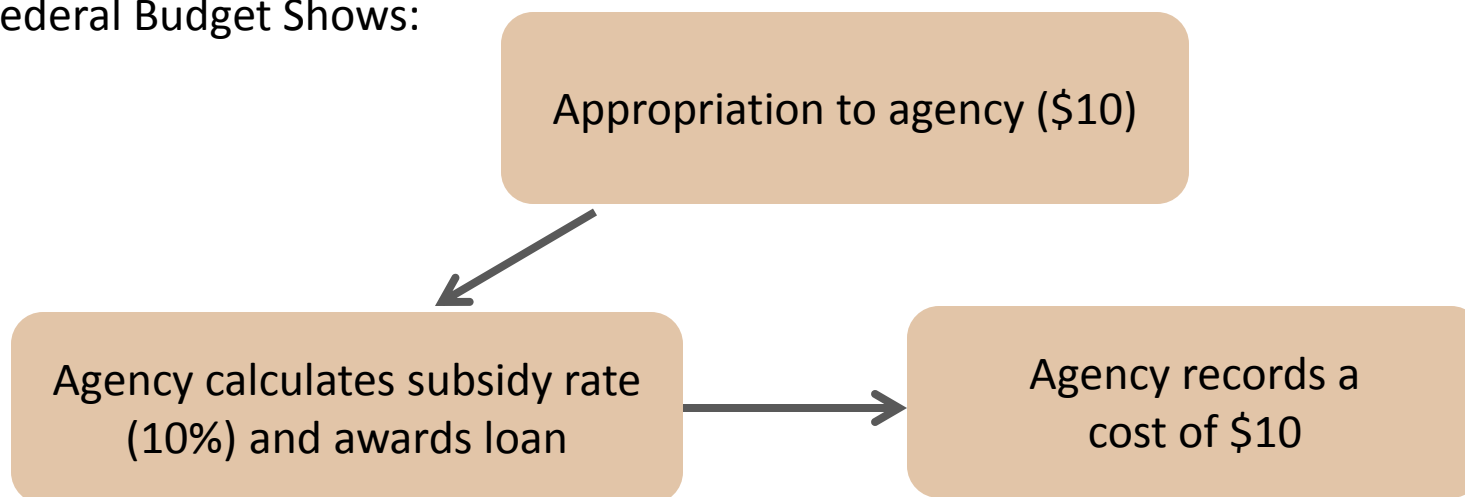
The loan is \$100.



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Disbursement and repayment of the loan (and interest payments) are not recorded in the federal budget because those transactions are only “financing” cash flows.

The Federal Budget Shows:



# Federal Budget Basics: Loans and Loan Guarantees

- Under FCRA, in the case of direct loans, funds are not available to revolve (into new loans).
  - Loan repayments are unavailable for future spending; those repayments are already accounted for in the estimated net present value of the loan.
  - Many state infrastructure banks allow funds to revolve.
- Allowing loan repayment to be used for new loans would raise the effective FCRA subsidy cost of the original loans to 100% (equivalent to a grant).
- FCRA does not account for market risk.

# Federal Budget Basics: Borrowing is Not a Receipt

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- Bond proceeds or repayable equity investments are a means of financing a project, not the ultimate source of capital and are not treated as federal receipts
- Source of capital for infrastructure projects is the income that will be generated by their operation, which usually comes from federal spending even in the cases with third-party financing

# Selected CBO Studies and Reports

## ■ Budget concepts

- *Fair-Value Accounting for Federal Credit Programs* (March 2012)  
[www.cbo.gov/publication/43027](http://www.cbo.gov/publication/43027)
- *Third-Party Financing of Federal Projects* (June 2005)  
[www.cbo.gov/publication/16554](http://www.cbo.gov/publication/16554)

## ■ Innovative finance

- *Infrastructure Banks and Surface Transportation* (July 2012)  
[www.cbo.gov/publication/43361](http://www.cbo.gov/publication/43361)
- *Using Public-Private Partnerships to Carry Out Highway Projects* (January 2012) [www.cbo.gov/publication/42685](http://www.cbo.gov/publication/42685)
- *Alternative Approaches to Funding Highways* (March 2011)  
[www.cbo.gov/publication/22059](http://www.cbo.gov/publication/22059)
- *Spending and Funding for Highways* (January 2011)  
[www.cbo.gov/publication/22003](http://www.cbo.gov/publication/22003)

# Questions?

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- Cost estimates for legislation:  
[www.cbo.gov/search/ce\\_sitesearch.cfm](http://www.cbo.gov/search/ce_sitesearch.cfm)
- Other CBO transportation and infrastructure publications:  
[www.cbo.gov/topics/infrastructure-and-transportation](http://www.cbo.gov/topics/infrastructure-and-transportation)
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